



**Southwest Power Pool
REGIONAL STATE COMMITTEE
Little Rock, Arkansas
June 22, 2005**

• M I N U T E S •

Administrative Items

Members in attendance or represented by proxy were:

- Denise Bode, Oklahoma Corporation Commission (OCC)
- Sandra Hochstetter, Arkansas Public Service Commission
- Brian Moline, Kansas Corporation Commission (KCC)
- Julie Parsley, Texas Public Utility Commission (TPUC)
- Steve Gaw, by proxy Mike Proctor, Missouri Public Service Commission

Others in attendance:

- Richard House, Arkansas Public Service Commission
- Sam Loudenslager-Arkansas Public Service Commission
- Larry Holloway, Kansas Corporation Commission
- Tom DeBaun, Kansas Corporation Commission
- Tom Day, Kansas Corporation Commission
- Gary Walker, Oklahoma Corporation Commission
- Bridget Headrick, Texas Public Utility Commission
- Adrienne Brandt, Texas Public Utility Commission
- Jim Eckelberger, SPP Director
- Nick Brown, SPP
- Bruce Rew, SPP
- Carl Monroe, SPP
- Les Dillahunty, SPP
- Stacy Duckett, SPP
- Tracy Stotts, SPP
- Cheryl Robertson, SPP
- Tony Ingram, Federal Energy Regulatory Commission
- John Rogers, Federal Energy Regulatory Commission
- Richard Ross, AEP
- Calvin Crowder, AEP
- Nick Akins, AEP-SWEPCO
- Mel Perkins, OG&E
- Bob Koenig, OG&E
- Brian Donahue, Arkansas Electric Energy Consumers
- Mike Palmer, Empire
- Ralph Luciani, CRA
- Sammie Cox, AEP-SWEPCO
- Johnie Wise, SWEPCO
- Doug Henry, Westar

Sha Hossain, Westar
Dave Christianio, City Utilities of Springfield
____Royster, EDI
Orlando Martinez, Redbud Energy

President Bode called the meeting to order at 1:02 PM CDT. Secretary Parsley called roll and a quorum was declared. President Bode asked for adoption of the January 5, 2005 meeting minutes. **Secretary Parsley moved to adopt the April 25, 2005 minutes. Vice President Hochstetter seconded the motion. Hearing no objection, the minutes were adopted.**

Updates:

Les Dillahunty provided the RSC financial report (Budget Performance – Attachment 1). Mr. Dillahunty reviewed January through May 2005. An engagement letter has been signed and all data sent to the auditor to perform the audit. Completion of the audit is expected in the near future.

President Bode stated that action would be taken later in the meeting to elect a new treasurer. The new treasurer will review the budget.

Tony Ingram (FERC) was asked to provide the FERC report. Mr. Ingram stated that, with a limited opportunity for review, the Midwest ISO energy markets tariff rehearing and OMS Offer of Proof order posted late on June 21. Mr. Ingram stated his belief that this order would not immediately impact SPP RSC states but would be more relevant when SPP implements its market and the Independent Market Monitor more actively engages in market data collection. Mr. Ingram said that Order 2003C was voted at the June 15 Commission meeting; the order reaffirms the generation interconnection network upgrades 20-year reimbursement term; clarifies credits for upgrades applicable to affected System Operators and explains the transmission provider's payment obligation for reactive power. He reported that Chairman Pat Wood supports action on the transmission pricing policy soon and that the Commissioners discussed views on passive ownership of transmission assets and attendant voting rights that are likely to be addressed in the policy statement once it issues. President Bode requested that Mr. Ingram keep the RSC informed concerning any change in tone at FERC regarding relations with the RSC, including sharing of confidential market data.

Nick Brown provided an update on SPP activities. It has been two years since the first SPP Strategic Plan was adopted. Approximately 95 – 99 percent of that plan has been accomplished due in part to the formation of the RSC. The Strategic Planning Committee and the RSC held a retreat May 12-13 in Hot Springs. A new Strategic Plan was drafted, reviewed by the SPC during a teleconference last week, and will be sent to the Board of Directors for approval at the July 26 meeting.

Mr. Brown then reported on the status of the Entergy ICT negotiations. Entergy has made a 205 filing, which goes beyond the previous declaratory order. Detailed negotiations are taking place pursuant to the 205 filing. FERC is hosting an Entergy ICT Technical Conference in New Orleans on June 29 – 30. Mr. Brown stated that this is a win-win situation for both parties and he is looking forward to finalizing an agreement.

Business Meeting:

President Bode recognized Mr. Jim Eckelberger, Chairman of SPP Board of Directors, and thanked

him for attending the meeting. She then asked for a round of introductions including those attending via phone.

Due to travel schedules, President Bode asked that the next item of business be the election of an RSC Treasurer. Nominations were requested. **Ms. Parsley moved that Brian Moline serve as Treasurer. Ms. Hochstetter seconded the motion, which passed unanimously.** President Bode thanked Mr. Moline for agreeing to serve.

Carl Monroe was asked to report on the Energy Imbalance Market (EIM) status and the GenTrader approach to dispatching. Mr. Monroe provided a history of activities regarding the EIM and the schedule status. The Reliability Task Force (RTF) was formed to address reliability issues as pointed out by the Operating Reliability Working Group (ORWG). The RTF completed their work the end of May. This work was sent to vendors and Staff who have been working on solutions, including schedules and costs. The RTF is finalizing a schedule and protocol changes to pass through the proper groups ending with a recommendation for the Markets and Operations Policy Committee (MOPC) and then to the Board of Directors for final approval on July 26. SPP Staff will determine resources needed for the EIM, which will also be presented to the Board in July. Participant readiness testing started the end of May. Seven members are fully qualified with four members becoming qualified this week. Currently all groups are working hard to meet the March 1, 2006 deadline.

Mr. Monroe stated that GenTrader was a tool for long-term generation planning with a high-level approach to transmission. SPP does not now see a need for this additional functionality.

There was considerable discussion on an order issued by FERC on June 21 concerning the availability of information. Many had not had a chance to read the order. Nick Brown stated that he will provide a full report at the next RSC meeting.

Mike Proctor provided an update on the Cost Allocation Working Group (CAWG). He stated that the group had been working on three topics:

1. Incentives for economic upgrades:
Work continues on this topic with monthly meetings being held with stakeholders. Progress is being made toward the development of a definitive proposal.
2. Transmission Definition:
The ongoing efforts of the Transmission Definition Task Force (TDTF) and the Regional Tariff Working Group (RTWG) were explained, including the definition and tariff language adopted by the RTWG on June 9. The RSC deferred action on this topic until July 11 asking for additional technical and rate information.
3. Large Generator Interconnection Agreements:
Order 2003 has the effect of dividing transmission costs into 3 areas. Discussion is ongoing to make costs region wide at a postage stamp rate with plans to present a more detailed explanation to RSC.

Mr. Proctor provided comments on the FERC staff paper on long-term transmission rights. Comments are to be filed by July 27 but some parties will file for an extension. States are asked to support these comments that allow individual RTOs to determine their own plans. Following

discussion, it was decided that Steve Dottheim would coordinate the filing either as multi-state or on a state-by-state basis.

Les Dillahunty provided background and an update on the rehearing/clarification petitions on the FERC order regarding the SPP Cost Allocation Plan (CAWG Order and Rehearing Requests – Attachment 2). On May 23, 2005 numerous parties submitted rehearing or clarification requests including SPP and various transmission owners and transmission customers. SPP addressed FERC's decision to remove from Section VII of Attachment Z, the first right of refusal provision and FERC's comments on third party ownership. Tony Ingram and John Rogers (FERC) withdrew from the meeting at the time of this discussion.

Mr. Dillahunty also provided background and an update on the Cost Benefit Study feedback (Cost Benefit Study Feedback Review – Attachment 3). This is believed to be a valuable study with positive results to allow SPP to move forward. During discussion, it was questioned whether the model should be run again to test for a significant cost change due to variable prices in gas, etc. Ralph Luciani (CRA) agreed to provide an estimate of time and expense required to perform this alternative analysis. Most agreed that it is a valuable tool and that they are comfortable with the input and the margin of error. SPP filed testimony and the Cost Benefit Study on June 17 in Arkansas with other states to follow in August.

Scheduling of Next Regular Meeting, Special Meetings or Events:

President Bode noted that it is necessary to call a special teleconference meeting prior to the July 12-13 MOPC meeting in Tulsa. A teleconference is scheduled for July 11 at 10:00 a.m. CDT. Due to the fact that NARUC is meeting the same as the next SPP Board of Directors meeting, the usual meeting schedules have changed. The next regular scheduled RSC meeting is in Austin on July 27 in conjunction with the NARUC meeting. The SPP Board of Directors will be meeting on July 26 in Tulsa. A room will be set up in Austin to join the SPP Board of Directors meeting via teleconference.

With no further business, the meeting was adjourned.

Respectfully submitted,

Julie Parsley, Secretary

AGENDA

REGULAR MEETING
Wednesday, June 22, 2005
1:00 pm- 5pm
Peabody Hotel
Little Rock, AR

- 1. CALL TO ORDER**
- 2. PRELIMINARY MATTERS**
 - a. Declaration of a quorum
 - b. Adoption of April 25, 2005 Minutes
- 3. UPDATES**
 - a. RSC Financial Report
 - b. Other RSC officer reports
 - c. FERC
 - d. SPP
- 4. BUSINESS MEETING-ALL ITEMS SUBJECT TO DISCUSSION AND ACTION**
 - a. Energy Imbalance Market status report and GenTrader approach to dispatching
 - b. Cost Allocation Work Group report - economic upgrades, transmission definition, large generator interconnection agreement
 - c. FERC staff paper on long-term transmission rights
 - d. Rehearing/clarification petitions on FERC order regarding SPP Cost Allocation Plan
 - e. Report of SPP and their member utilities on the timing of their various state approval filings this year
 - f. Charles Rivers Associates Cost Benefit Study
 - g. Office of the Treasurer
 - h. Other issues
- 5. SCHEDULING OF NEXT REGULAR MEETING, SPECIAL MEETINGS OR EVENTS**
- 6. ADJOURNMENT**

Notice of Meeting of the Southwest Power Pool Regional State Committee

The Southwest Power Pool (SPP) Regional State Committee (RSC) will hold a public meeting at 1:00 pm CDT on June 22, 2005. The business meeting will involve discussion and possible action as set forth in the attached Agenda. Members who are not able to attend in person should submit a proxy in accordance with the Bylaws.

Persons planning to attend the meeting by teleconference should register online at least one day prior to the meeting at <http://www.spp.org> in order to obtain the telephone number for conference bridge access. The telephone number will be provided at close of business the day before the meeting.

**Regional State Committee
Budget Performance
May 2005**

	<u>May 05</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>Jan - May 05</u>	<u>YTD Budget</u>	<u>\$ Over Budget</u>	<u>Annual Budget</u>
Income							
4900 · Other Income	416,382.81	13,655.00	402,727.81	785,616.66	103,320.00	682,296.66	1,422,665.00
Total Income	<u>416,382.81</u>	<u>13,655.00</u>	<u>402,727.81</u>	<u>785,616.66</u>	<u>103,320.00</u>	<u>682,296.66</u>	<u>1,422,665.00</u>
Expense							
6000 · Operating Expenses							
6200 · Meeting-related Travel	7,398.87			25,402.33			
6300 · Administrative	0.00			2,281.60			
6000 · Operating Expenses - Other	0.00	13,655.00	(13,655.00)	0.00	103,320.00	(103,320.00)	222,665.00
Total 6000 · Operating Expenses	<u>7,398.87</u>	<u>13,655.00</u>	<u>(6,256.13)</u>	<u>27,683.93</u>	<u>103,320.00</u>	<u>(75,636.07)</u>	<u>222,665.00</u>
6800 · Outside Services							
6810 · Cost-Benefit Study							
6811 · Energy Imbalance	408,983.94	0.00	408,983.94	757,932.73	0.00	757,932.73	0.00
6812 · Ancilliary Services	0.00	0.00	0.00	0.00	0.00	0.00	400,000.00
6813 · Congestion Management	0.00	0.00	0.00	0.00	0.00	0.00	800,000.00
Total 6810 · Cost-Benefit Study	<u>408,983.94</u>	<u>0.00</u>	<u>408,983.94</u>	<u>757,932.73</u>	<u>0.00</u>	<u>757,932.73</u>	<u>1,200,000.00</u>
Total 6800 · Outside Services	<u>408,983.94</u>	<u>0.00</u>	<u>408,983.94</u>	<u>757,932.73</u>	<u>0.00</u>	<u>757,932.73</u>	<u>1,200,000.00</u>
Total Expense	<u>416,382.81</u>	<u>13,655.00</u>	<u>402,727.81</u>	<u>785,616.66</u>	<u>103,320.00</u>	<u>682,296.66</u>	<u>1,422,665.00</u>
Net Income	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>



 **SPP**

**SPP Regional State
Committee –
Cost Allocation Order
and Rehearing
Requests**

**June 22, 2005 – Little Rock, AR
Les Dillahunty
Vice President, Regulatory Policy
Southwest Power Pool**

2



Background

- ❖ On April 22, 2005, FERC conditionally accepted the proposed revisions to the Tariff to incorporate the cost allocation plan.
- ❖ Tariff provisions were given a May 5, 2005 effective date.
- ❖ In addition, FERC accepted the cost allocation and cost recovery provisions of Attachment Z with the same effective date of May 5, 2005.

3



Rehearing Requests

- ❖ On May 23, 2005, numerous parties submitted rehearing or clarification requests including SPP and various transmission owners and transmission customers
- ❖ Also on May 23, 2005, SPP made a compliance filing to conform to the April 22, 2005 FERC Order
- ❖ East Texas Cooperatives and the Arkansas Public Service Commission also filed answers to the rehearing requests
- ❖ Two protests to the FERC Order were filed: (1) TDU Intervenors and (2) The Lafayette Utilities System and the East Texas Cooperatives.

4



Summary of Filings

- ❖ **The joint filing of the SPP TOs and the separate filing of SPP addressed FERC's decision to remove Section VII of Att. Z, the first right of refusal provision and FERC's comments on third party ownership. The TOs believed that FERC did not understand Sec. VII and did not fully explain the third party ownership discussion.**
- ❖ **Many of the other requests for rehearing or clarification addressed certain provisions of Att. Z or cost allocation plan to which the intervener did not agree.**
- ❖ **The APSC filed in support of SPP's request for clarification and explained that third party ownership is subject to state jurisdiction. The APSC asked FERC to explain how the order fit into the state regulatory schemes.**
- ❖ **The ETEC protest and the TDU protest specifically disputed the FERC order with respect to crediting issues.**



 SPP

**SPP Regional State
Committee –
Cost Benefit Study
Feedback Review**

**June 22, 2005 – Little Rock, AR
Les Dillahunty
Vice President, Regulatory Policy
Southwest Power Pool**

2



Background

- ❖ **Cost Benefit Analysis (CBA) conducted on behalf of the RSC by Charles Rivers Associates**
- ❖ **Study released on April 25, 2005**

Net Results:

Stand Alone Case: SPP-wide – (\$70.5 Million)

EIS Case: SPP-wide – \$373.1 Million

3



CBA Areas of Analysis

- Wholesale Energy Modeling**
 - Stand Alone**
 - Base Case**
 - EIS Case**
- Allocation of Energy Market Impacts and Cost Impacts**
- Qualitative Assessment of Energy Imbalance Impacts**
- Qualitative Assessment of Market Power Impacts**
- Aquila Sensitivity Cases**

4



Specific Discussion of CBA

1. Margin of Error

- ◆ The Study results are subject to a margin of error.
- ◆ Possible sources of error include:
 - * incomplete monitoring of transmission constraints,
 - * incomplete data on generation characteristics,
 - * fuel price forecast margin of error, and
 - * error in forecasting RTO costs.
- ◆ No formal margin of error for this Study, but a change of less than \$10 million over the study period for individual companies are likely to be within the study's margin of error.

5



Specific Discussion of CBA

2. Few Designated Network Resource Additions/ Retirements Modeled

- ◆ The Study only reflects the addition of 30 MW of the Sunflower Wind farm in 2005 and 800 MW of latan 2 coal fired facility scheduled for 2010.
- ◆ No generating unit retirements were modeled.
- ◆ The Study concluded that overall projected capacity balance indicates that existing installed capacity, coupled with these additions, will be more than sufficient to meet SPP reliability requirements through the Study period.

6



Specific Discussion of CBA

3. Transmission Tariff Expense & Revenue Allocations

- ◆ Import costs borne by transmission-owning company on the “importing” side of each interface (for example, tariffs for flows from AECl to OGE were assumed borne by OGE).
- ◆ Reality = transmission customer scheduling the transaction is responsible for the tariff charges.
- ◆ The Study applied year 2003 historical average distribution percentages to allocate the overall impact to individual SPP companies.
- ◆ The SPP Tariff allocates 50% of point-to-point revenue to members based upon their pro-rata portion of overall revenue requirements and 50% based upon the megawatt mile usage associated with transactions.
- ◆ CRA’s consideration of using a similar method within SPP indicated that loop flow effects are important within this compact region.

7



Specific Discussion of CBA

4. Regional Results Determined – Challenge to Allocate at Company Level

- ◆ While the production cost modeling is conducive to provide regional impacts, there are challenges to allocating modeling impacts of such a large footprint with significant inter-company flows.

5. No Representation of Demand – Side Response to Price Signals

- ◆ The SPP EIS market will explicitly provide these price signals; however the quantitative modeling of the impacts of such demand “elasticity” significantly complicates a study effort.
- ◆ Impacts of a Demand Response are not modeled beyond pricing nominal amounts of dispatchable demand set at thresholds of \$600/MWh and \$800/MWh.

8



Specific Discussion of CBA

6. Possible Impact from Changes in FERC Fees and the Initiation of Entergy ICT Services

- ♦ If a downward adjustment in the FERC fees were made, the impact on the results of this study would be positive.
- ♦ SPP's successful conclusion of negotiations and the commencement of provision of Entergy ICT services would also have a positive impact on the results of this study.

7. FERC Order 2000 Requirements

- ♦ An imbalance market is a requirement for RTOs
- ♦ FERC stated in Order 2000 that “[w]e conclude that control area operators should face the same costs and price signals as other transmission customers and, therefore, also should be required to clear system imbalances through a real-time balancing market

9



Conclusion

- ❖ The RSC CBA is a very helpful tool in evaluating the overall benefits of the Energy Imbalance Market to the entire region.
- ❖ Transmission Owners and State Regulators should be very cautious in using the specific values produced by the study.
- ❖ SPP is shown as beneficial overall to the SPP footprint and the negative impact of the market on specific companies could be attributed to numerous assumptions made during the study process, i.e. likely within the margin of error of the analysis and the input assumptions.

10